File

DISCOVERY MINES LIMITED

1974

ANNUAL REPORT

DISCOVERY MINES LIMITED

OFFICERS

J. C. BYRNE
President and Managing Director

H. EARL JOUDRIE
Vice-President

D. R. MCEWEN
Secretary-Treasurer

DIRECTORS

J. C. BYRNE, Toronto
President and Managing Director, Rayrock Mines Limited,
Managing Director, Avoca Mines Limited

C. M. EVANS, Toronto
Vice-President, Ashland Oil Canada Limited

E. S. HOLMGREN, Detroit
Retired Mining Executive

H. EARL JOUDRIE, Toronto
Chairman and Chief Executive Officer, Ashland Oil Canada Limited

D. O. MUNGOVAN, Toronto
Queen's Counsel, Mungovan & Mungovan

G. T. SMITH, Toronto
Vice-Chairman, United Siscoe Mines Limited and President,
Camflo Mines Limited

W. J. WHELAN, Toronto
Administrative Vice-President, Ashland Oil Canada Limited

MANAGEMENT

J. C. BYRNE
Managing Director

R. J. KILGOUR
General Manager

D. R. CROMBIE
Vice-President — Mining

EXECUTIVE ENGINEER

L. A. BEDNARZ, P.Eng.

EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

AUDITORS

COOPERS & LYBRAND, Toronto

SOLICITORS

MUNGOVAN & MUNGOVAN, Toronto

ANNUAL MEETING

June 26, 1975
10:00 a.m.
Room No. 200
Lord Simcoe Hotel
Toronto

Directors' Report to the Shareholders

We present the Twenty-eight Annual Report of your Company for the calendar year 1974, and an account of events since that period.

The Company experienced a net loss of $478,853 in 1974 after consolidation of its accounts with those of Avoca Mines Canada Limited. A 54 per cent equity interest is held in Avoca Mines Canada whose wholly-owned Irish subsidiary had a most difficult year characterized by depressed copper prices for several months, rapidly escalating costs, and burdensome interest payments associated with debt obligations. While Avoca Ireland generated a modest operating profit in 1974, interest charges, depreciation and amortization of deferred development resulted in a net loss. The indebtedness shown in the Discovery Balance Sheet is primarily related to the Avoca association and is a cause for concern, although Discovery is not liable for Avoca's debts except as a guarantor of possible exchange losses relating to a foreign equipment loan. Negotiations are proceeding with the Irish Government in conjunction with resource companies for new financing to enable Avoca to continue in operation.

Rayrock Mines Limited, an affiliated company, can report satisfactory results from mining and petroleum production, and investment income. Discovery's 22 per cent equity in Rayrock's net profit is reflected in the Consolidated Operating Statement.

Production planning has been initiated for the Camlaren property in the Northwest Territories following encouraging results from the 1974 program of shaft sinking and underground development. Provided the future price performance of bullion outweighs the adverse effects of rampant inflation, we are hopeful of bringing Camlaren into production during 1977.

Discovery recently sold by way of private placement 440,000 treasury shares at $1.78 per share to net the treasury approximately $750,000. These funds are for the exploration and development of the Camlaren gold property, although additional financing will be required to attain production status.

An extensive drill program will be conducted this year on our LaForma gold property in the Yukon under a farmout agreement.

The 50 per cent owned Johnsby prospect, under option to Cominco, hosts one of the largest low grade gold deposits in Canada, and could be developed with the support of a substantially higher gold price.

On behalf of the Board,

President and Managing Director

Toronto, Canada
May 8, 1975

Mining Operations and Interests

AVOCA MINES CANADA LIMITED

In comparison to the previous year when record profits were reported, 1974 was a most difficult one for Avoca's Irish copper mine, and 1975 does not hold promise for significant improvement. Depressed copper prices that have prevailed since last September, combined with rising costs and the interest payments associated with debt obligations, resulted in serious operating losses. Had it not been for a loan totalling £300,000 from an Irish Government Agency and the understanding of the Company's creditors it is unlikely that Avoca Ireland would have been able to sustain production to this date. Additional financial assistance is urgently required and, in this regard, advanced discussions have been held with major resource companies in conjunction with the Irish Government.

The original plans calling for increased underground production in 1975 to coinside with mill expansion had to be adandoned in favour of drastic austerity measures. In January of this year the milling rate was reduced to about two-thirds of the 1974 daily average of 2,776 short tons, underground development was sharply curtailed, and open pit mining gradually phased out.

During the fourth quarter the installation of a new underground conveyor system and crusher was completed and they were functioning satisfactorily at year end. The depth development program pertaining to ore contained between the former 1670 Level and the new bottom 2000 Level was also completed except for sublevel advances required for stope preparation; no ore has as yet been extracted from this block.

While the mine managed to generate a modest operating profit in 1974, provisions for depreciation and amortization of deferred development together with head office charges resulted in a net loss of $1,175,077, equivalent to $0.198 per share.

The $1,500,000 preference shares of Avoca Ireland that were issued in 1970 to the bankers were fully redeemed following the payment last June of the final instalment in the amount of $425,272.

Given improved copper prices, and the financial resources to complete the proposed expansion program, the long term prospects for Avoca hold considerable promise. Of potential importance is a large deposit of low grade copper located in the East Avoca mineralized belt which was partially drill investigated during the past year.

RAYROCK MINES LIMITED

Reflecting a change in its fiscal year to conform with that of the calendar year Rayrock Mines — a Discovery associate, reported a net income of $314,046 or $0.07 per share for the fourteen months ended December 31, 1974. Revenues from petroleum, mining and investments each posted increases, while operating profit from crude oil production and investment income registered record highs.

Rayrock's Petroleum Division recently acquired additional oil reserves in Southwestern Ontario for a purchase price of $913,000. The aquisition is based on an estimated recoverable reserve of 2.1 million barrels, and supplements 1.2 million barrels of ultimate reservoir yield from the former Rayrock interest in three waterflood units, now totally owned as a result of the purchase.

Production at the Icon Sullivan copper mine in Quebec ceased this May due to exhaustion of ore reserves.

A production decision is anticipated shortly for a Nevada gold property in which Rayrock's ownership is 20 per cent. Ore reserves amenable to open pit extraction are 1.7 million tons averaging 0.18 ounces gold per ton; additional tonnages of lower grade have been drill indicated.

Working capital as at December 31, 1974 was $1.9 million while investments in listed securities had a market value of $4.8 million.

CAMLAREN MINES LIMITED

The Camlaren property is located 60 air miles northeast of the town of Yellowknife in the Northwest Territories. In 1974 Discovery Mines Limited carried out a program of shaft deepening and lateral development on the 800 foot level followed by diamond drilling of the ore zone to the 1000 foot horizon. This work program under the terms of a long standing agreement earned Discovery a 66⅔ per cent interest in the Camlaren property. Additionally, Discovery owns a 68 per cent share equity in Camlaren for a total direct and indirect interest of 89 per cent.

Results from the 1974 underground development work has prompted Discovery to proceed with production planning for the property. Subject to the availability of the necessary finances and provided the price performance of gold bullion outweighs the adverse effect of rampant inflation, then production could commence in early 1977 at a milling rate of 75-100 tons per day.

Semi-proven reserves have been calculated at 56,000 tons averaging 0.62 ounces gold per ton after a generous allowance for dilution. Revenue from this tonnage is expected to generate sufficient profit to recover the preproduction investment estimated at $3.5 million, including expenditures of some $750,000 in 1974.

The Camlaren deposit is open to depth below the 1,000 foot horizon and displays geological similarities to the former Discovery mine occurrences which were developed over a vertical extent of 4,000 feet. There are other relatively unexplored gold showings at Camlaren. Therefore it is expected that the operation will develop additional reserves that can be profitably mined.

During 1975 the work program will include final engineering design, site preparation and pouring of foundations.

Previous investigation of the Camlaren mine occurred in 1962 when Discovery extracted some 13,000 tons of ore from the upper workings. This tonnage was processed at the Discovery mill and yielded recoveries of 1.13 ounces gold and 0.32 ounces silver per ton. Having determined the grade and mining characteristics of the main high grade Hump Vein, the property was then shelved pending a substantial improvement in the bullion price.

JOHNSBY MINES LIMITED

Excellent correlation of the 1974 drilling results with those of the 1946 program was demonstrated by Cominco Ltd., from its confirmatory work on the optioned Johnsby gold prospect, owned equally by Discovery Mines and Hydra Explorations. The minimum first year option commitment of $250,000 was expended by Cominco on a surface diamond drilling program consisting of a total of 9,443 feet in 20 holes designed to test a 2,000 foot section of a gold-bearing quartz diorite dyke. It is reported that a tonnage potential in excess of 20 million tons to a depth of 1,000 feet would be a reasonable expectation. While an overall average grade of 0.053 ounces gold per ton ($9.27 at $175 gold price) was calculated by Cominco for this tonnage, Discovery is of the opinion that a significantly higher average would be realized through selective open pit mining. Importantly, the aforementioned dyke has been traced on surface for a strike length of 20,000 feet and, in addition, Johnsby owns a similar gold bearing structure, some 5,000 feet long, that parallels the main occurrence. Geological investigation discloses that the gold mineralization has a strong affinity to quartz veining within the host rock.

The Johnsby property comprises 71 contiguous claims located approximately 125 air miles north-northwest of Yellowknife in the Northwest Territories. Considerable exploration was last conducted in this region during the 1940's.

Under the terms of the Johnsby-Cominco Agreement, Cominco can earn a 60 per cent interest in the Johnsby property in the event of aggregate expenditures of $3,000,000 by 1979. Johnsby may then maintain its 40 per cent equity by providing only 20 per cent of on-going finances. In the event of election of non-participation then Johnsby's net interest would be reduced to 20 per cent.

LaFORMA PROPERTY

Diamond drilling will commence in May on the LaForma gold property located 40 miles west of Carmacks, Yukon Territory. This work program will investigate several soil geochemical anomalies resulting from a survey conducted in 1974. Some exceptionally high values were recorded for gold and arsenic; the latter is known to be a good geochemical indicator of gold bearing structures in this area. One of the anomalies is interpreted to be a possible faulted extension of the G-3 Zone which was the zone mined during a brief period of production in 1965.

Estimated minimum cost of this year's exploration is $165,000 and will be financed by Rayrock Mines and Ashland Oil Canada to earn an interest. Under the terms of an agreement respecting the three parties, Discovery's LaForme property has been transferred to a private company called Botha Lake Mining Corporation. In the event Rayrock and Ashland should spend $1.0 million of exploration money on the property by the end of 1978 they would jointly earn a 54 per cent equity in Botha Lake, after which Discovery would be required to participate in ongoing expenditures to retain its 46 per cent equity.

Semi-proven reserves in the G-3 Zone above the bottom adit level are 70,000 tons grading 0.44 ounces gold per ton calculated for a 5.5 foot mining width. While this deposit is somewhat erratic the grade is generally good as evidenced by the results of six holes that had been drilled below the bottom adit level, which holes returned an average of 0.90 ounces gold per ton over an average true width of 4.4 feet. In addition to the G-3 structure there are several other known gold showings of the LaForma property.

NORITA QUEBEC MINES LIMITED

The Norita Division of Orchan Mines Limited commenced shaft sinking during 1974 in preparation for mine production and ore shipments to the nearby Orchan mill in 1976. At year end the excavation had reached the 1,000 foot horizon with a further 600 feet of advance remaining.

Orchan has expended in excess of $2.9 million on the Norita property of which $1.3 million has been for plant and equipment.

Drill indicated reserves are unchanged at 1,638,000 tons averaging 7.6% zinc, 0.7% copper, and 1.0 ounces silver per ton before dilution. Additional ore reserves are probable.

Discovery's equity in Norita is 13.7 per cent. Under the terms of the Orchan acquisition, Norita is to receive $500,000 payable out of early production and, as a further consideration, will be entitled to 25 per cent of net profits from all ore extracted after recovery by Orchan of its preproduction expenditures and interest thereon.

GENERAL

Additional exploration was conducted by Noranda Exploration Company on the Isle Dieu Township, Quebec, copper prospect owned jointly by Discovery (20%) and Radiore Uranium Mines (80%). The latest efforts were concentrated on further investigation by both diamond drilling and bulldozer trenching of a known sulphide bearing zone discovered in the original work. Two deep drill tests intersected low grade copper values, while the mineralization exposed by stripping proved to be sparse.

Noranda's total expenditures through October, 1974 have been $134,000. Under the terms of the option agreement Noranda may, upon the aggregate expenditure of $150,000 prior to September, 1975, elect to incorporate a new company to acquire the property in which Discovery and Radiore would own a 25 per cent carried interest.

Consolidated Balance Sh

ASSETS

	1974 $	1973 $ Restated
Current assets		
Cash	113,146	38,040
Short-term investment — at cost	—	15,179
Accounts receivable and prepaid expenses	7,044	15,421
	120,190	68,640
Long-term investments (notes 2 and 3)		
Avoca Mines Limited	4,762,857	5,821,614
Other	1,449,519	1,268,924
	6,212,376	7,090,538
Mining properties (note 4)		
Mining claims and options	344,502	415,014
Land, buildings and equipment	12,445	79,549
Deferred exploration and development expenditure	960,714	285,392
	1,317,661	779,955
Other assets		
Mine stores — at cost	—	40,964
Deferred financing expenses	38,486	42,474
	38,486	83,438
	7,688,713	8,022,571

as at December 31, 1974

LIABILITIES

	1974 $	1973 $ Restated
Current liabilities		
Bank indebtedness (note 5)	611,000	—
Accounts payable and accrued expenses	146,170	67,841
Current portion of long-term debt (note 6)	1,255,000	—
	2,012,170	67,841
Long-term debt (note 6)	—	1,255,000
Minority interest (note 7)	1,409,911	1,954,245
	3,422,081	3,277,086

SHAREHOLDERS' EQUITY

	1974 $	1973 $ Restated
Capital stock		
Authorized —		
4,000,000 shares of $1 par value each		
Issued —		
2,748,773 shares	2,748,773	2,748,773
Contributed surplus	194,224	194,224
Retained earnings	1,323,635	1,802,488
	4,266,632	4,745,485
	7,688,713	8,022,571

Signed on behalf of the Board,

J. C. BYRNE, Director.

H. EARL JOUDRIE, Director.

Consolidated Statement of Earnings

For the Year Ended December 31, 1974

	1974 $	1973 $ Restated
Income		
Share of income (loss) determined by the equity method (note 1)	(917,380)	1,252,362
Other investment income (note 3(f))	18,350	22,306
	(899,030)	1,274,668
Expenses		
Interest on long-term debt	17,850	17,850
Property maintenance	17,270	24,411
Exploration expenditures	90,423	107,438
Head office expenses	113,912	91,663
	239,455	241,362
Income (loss) before minority interest and extraordinary item	(1,138,485)	1,033,306
Minority shareholders' interest in (earnings) loss of subsidiary companies	535,634	(532,214)
	(602,851)	501,092
Extraordinary item		
Profit on sale of fixed assets	123,998	—
Net earnings (loss) for the year	(478,853)	501,092
Net earnings (loss) per share before extraordinary item	($0.22)	$0.18
Net earnings (loss) per share	($0.17)	$0.18

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1974

	1974 $	1973 $ Restated
Source of working capital		
Sale of fixed assets	190,645	567
Sale of investments	48,178	44,608
Decrease in advances to Avoca Mines Limited	—	155,584
Decrease in mine stores	40,964	—
	279,787	200,759
Use of working capital		
Current operations (note 11)	138,660	116,538
Advance to Avoca Mines Limited	13,161	—
Development expenditures — deferred	765,745	—
Reduction of long-term debt	1,255,000	—
	2,172,566	116,538
Increase (decrease) in working capital	(1,892,779)	84,221
Working capital (deficiency) — beginning of year	799	(83,442)
Working capital (deficiency) — end of year	(1,891,980)	799

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1974

	1974 $	1973 $
Balance — beginning of year	1,802,488	1,301,396
Net earnings (loss) for the year	(478,853)	501,092
Balance — end of year	1,323,635	1,802,488

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1974

1. ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financal statements include the accounts of the company and all its subsidiaries except Avoca Mines Limited. Investments in Avoca Mines Limited (note 2) and effectively controlled companies (note 3) are accounted for by the equity method, under which the investment in shares of such companies is carried at cost adjusted by the company's share of the earnings or losses since effective control was acquired.

(b) Deferred exploration and development expenditures

These expenditures are deferred until such time as they are written off against production from the property to which they apply or until the claims are sold or otherwise disposed of. Expenditures made in the general search for minerals are normally charged to expense in the year incurred.

2. AVOCA MINES LIMITED (AVOCA IRELAND)

This Irish company, the wholly-owned subsidiary of Avoca Mines Canada Limited, in which the company has a 54% interest, has a working capital deficiency at December 31, 1974 of approximately $2,455,000. Other assets and liabilities consist of fixed assets and deferred expenditures of $9,646,000 and long-term debt of $2,485,000. Available line of credit from Avoca Ireland's bankers have been fully taken up and Avoca Ireland's continued operation is dependent on future financial support. Negotiations which the company believes will be successful are in progress with Irish government agencies and other companies which may result in the availability of further funds. The proposals under discussion will result in a material reduction in the company's present percentage of ownership of Avoca Ireland and therefore the accounts of this subsidiary have not been consolidated in these financial statements; rather the income or loss determined by the equity method has been included. The 1973 figures have been restated on a comparable basis.

Results of operations of Avoca Ireland thus included on the equity method are as follows:

For 1974 — Loss of	$1,071,928
For 1973 — Income of	$1,257,067

3. OTHER LONG-TERM INVESTMENTS

(a) This item comprises:

	1974 $	1973 $
Investment in other companies accounted for by the equity method —		
Shares (note 3(b))	1,274,381	1,168,099
Debentures (note 3(c))	1	1
	1,274,382	1,168,100
Other investment at or below cost —		
Shares (note 3(d))	175,137	100,824
	1,449,519	1,268,924

(b) The quoted market value of the shares of these other companies accounted for by the equity method is $1,116,000 (1973 — $1,217,000).

(c) Debentures consist of $440,000 Tundra Gold Mines Limited income debentures due April 1, 1975 which are valued at $1.

(d) Other investments include listed shares carried at a cost of $25,414 with a quoted market value of $5,900 (1973 — $25,414 and $6,700 respectively).

(e) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

(f) Gains of $18,350 (1973 — $22,306) on realization of investments are included in income.

4. **MINING PROPERTIES**

	1974 $	1973 $
(a) Mining claims and options were acquired for cash and shares of capital stock as valued by the directors of the applicable company — at cost:		
32 claims Whitehorse Yukon Territory	—	69,312
19 claims Discovery N.W.T.	71,200	71,200
21 claims Gordon Lake Area N.W.T.	273,300	274,500
Sundry	2	2
	344,502	415,014
(b) Land, buildings and equipment:		
Discovery N.W.T. — fixed assets at mining properties carried at cost, less realizations and accumulated depreciation to shut-down dates	12,445	79,549

(c) Deferred exploration and development expenditure.

	Balance December 31, 1973 $	Expenditure during year $	Amortized or written off $	Balance December 31, 1974 $
La Salle, N.W.T.	146,364	—	—	146,364
West Zone, Mattagami Area, Quebec	48,928	—	—	48,928
Camlaren project	—	765,422	—	765,422
General exploration	90,100	323	90,423	—
	285,392	765,745	90,423	960,714

5. **BANK INDEBTEDNESS**

Bank indebtedness is partly secured by a general assignment of book debts.

6. **LONG-TERM DEBT**

This amount comprises the following obligations of a subsidiary:

	1974 $	1973 $
8½% unsecured income debentures	1,000,000	1,000,000
7% unsecured subordinated debentures	255,000	255,000
	1,255,000	1,255,000
Less: Current portion	1,255,000	—
	—	1,255,000

8½% unsecured income debentures — Avoca Mines Canada Limited:

These income debentures mature on December 31, 1975. Interest accrues from their date of issue and is payable on April 30 in each year only out of operating profits as defined. Such interest accumulated to December 31, 1974 amounts to $452,500, but because there have not yet been sufficient operating profits this amount has not been recorded in the accounts. When the principal amount becomes due and payable, there is no further obligation to pay the amount of accrued but unpaid interest outstanding, to the extent there are not sufficient operating profits, as defined, for the period from January 1, 1971 to the date payment becomes due. The income debentures must be redeemed prior to maturity if operating profits exceed certain limits. Avoca Mines Canada Limited may not pay dividends or make payments of principal on its 7% subordinated unsecured debentures until the income debentures are redeemed.

7% unsecured subordinated debentures — Avoca Mines Canada Limited

$750,000 principal amount of these debentures has been issued of which $495,000 held by the company has been eliminated on consolidation. These debentures mature on December 31, 1975 and Avoca Canada may not pay dividends until they are redeemed in full.

Depending on the outcome of the negotiations for further financing of Avoca Ireland (note 2) it may be necessary to seek extension of the maturity date of the above debentures.

7. **MINORITY INTEREST**

	1974 $	1973 $
Camlaren Mines Limited	27,489	28,350
Avoca Mines Canada Limited	1,382,422	1,925,895
	1,409,911	1,954,245

8. **REMUNERATION OF DIRECTORS AND SENIOR OFFICERS**

Directors and senior officers, as defined in the Business Corporations Act, received direct remuneration in the year ended December 31, 1974 of $68,000 (1973 — $58,000).

9. **PENSION PLAN**

The company administers a pension plan in which it participates together with Avoca Ireland and Rayrock Mines Limited. During 1973, the plan was brought up to date to provide for existing circumstances and the company is paying each year for five years commencing in 1973 an amount of $6,350 (Avoca Ireland — $10,200) to provide fully for the increased benefits in accordance with actuarial calculations.

10. **CONTINGENT LIABILITY**

In 1973 Avoca Ireland purchased crushing and conveying equipment for $940,000, payable in commercial French francs over a 7-year period. In this connection, Discovery Mines Limited gave a guarantee that it will be responsible for possible payments that may arise from currency exchange differences between the commercial French franc and pounds sterling.

11. **USE OF FUNDS FROM CURRENT OPERATIONS**

	1974 $	1973 $
Net earnings (loss) for the year	(478,853)	501,092
Items not affecting working capital —		
Amortization and write-off of deferred development and financing expenses	90,423	100,000
Minority interest in consolidated net (earnings) loss for the year	(535,634)	531,365
Shares of loss (income) determined by the equity method	917,380	(1,252,362)
Profit on sale of fixed assets and investments	(138,849)	(12,489)
Other	6,873	15,856
	(138,660)	(116,538)

12. **SUBSEQUENT EVENT**

Early in 1975 the company issued 440,000 treasury shares, netting $752,050.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Discovery Mines Limited and subsidiaries as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As outlined in note 2, however, the continued operation of the subsidiary company in Ireland is dependent on future financial support which is being negotiated but is not yet assured. Further, as referred to in note 6, it may be necessary to seek extension of the maturity date of the debentures due December 31, 1975.

Solely in view of the material uncertainties as to whether Avoca Mines Canada Limited and its subsidiary may be able to continue operations, which situation can only be resolved by future events, we are unable to express an opinion as to whether or not the accompanying consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated.

Toronto, Ontario,
May 8, 1975.

COOPERS & LYBRAND,
Chartered Accountants.

Printed in Canada.